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## Japan Versus the United States

Max Hugel, author of the following article on what the United States must do to compete successfully with Japan, spent more than 20 years as a business partner to the Japanese. He learned Japanese while in military intelligence during World War II. From 1954 to 1975 he was president and chief operating officer of Brother International Corp. and from 1975 to 1980 was executive vice president and chief operating officer of Centronics Data Computer Corp., Hudson. He was President Reagan's national director of voter groups in the 1980 campaign, and has been deputy director for administration and deputy director of operations of the Central Intelligence Agency.

By MAX HUGEL

Ever since World War II, the Japanese have inexorably made massive commercial penetrations around the world, particularly in the United States. Their manufactured goods are everywhere, and have often succeeded in displacing U.S. products. Turning to the other side of the coin, U.S. manufacturers have rarely been able to penetrate the Japanese market. The Japanese have an unbalanced duty rate on many American-manufactured goods. The forest of Japanese regulations is an almost impenetrable obstacle



to most American manufacturers attempting to penetrate that market.

Still worse, the Japanese possess a very complex distribution system which most American manufacturers do not understand and cannot penetrate.

As a result, there is a massive imbalance of trade between the United States and Japan and between Japan and much of the rest of the free world. The Japanese have dogmatically and aggressively pursued their strategy in taking over markets for their products throughout the world. America's industrial base has suffered accordingly. We all can cite examples of how their success has impacted here.

There are many reasons for what we are seeing today. Many U.S. manufacturers of consumer products have been extremely complacent. They have not resisted, and have allowed the Japanese to slowly but surely dominate their markets.

There are other factors.

After World War II, we designed the Japanese industrial base, told them what products to make, gave them significant advantages, financed many of their new factories, starting them off with a more up-to-date industrial base than we had. Since then they have continuously and constantly upgraded their facilities, automated, and utilized the character of their people and institutions to outpace us in productivity. Think about it. It is quite amazing. Japan imports almost all her raw materials, manufactures its products, sells them abroad, and competes effectively with everyone.

Unless we can cope with this situation, we could find ourselves reduced to the status of a secondary power. America could end up as a strictly services and agricultural country without a competitive industrial base. We would be a raw-materials source for Japan.

We have a hard climb ahead of us. Yet before we can tackle the problems, we first must understand Japan, its people, and how to negotiate with the Japanese, both on a government and business level.

The following is a thumbnail sketch of what corporate and political Japan is all about. If that is understood, I think we can begin to effectively negotiate with them, on government and business levels; to balance our trade with them, to increase our penetration of Japan's markets and to compete effectively through the world with Japan.

To successfully negotiate and deal with the Japanese, we must make an effort to understand them comparable to the one they put forth to understand us.

Let me outline some elements commonly found in the Japanese character that have been overlooked and about which we must obtain a much better understanding. Only about one fourth of Japan is arable and usable for traditional commercial and agricultural purposes. Well over 100 million people are crammed into these islands. They are not, like us, people accustomed to large open spaces and ample room for expansion. This is an intense, hard-working people, who focus so closely on their

work that they often view many leisure pursuits and humor as frills or frivolity.

Many Japanese possess a superiority complex towards other Asian nations, yet also feel they must race to catch up in their relationships with Western nations.

I have found the Japanese do not respect weakness and take advantage of it. They admire and respect strength, and I draw a careful line between strength based on reality as opposed to mere bluster in negotiations. If you are ignorant and unable to produce, table pounding guarantees disaster.

Japan is laced with contrasts. People in kimonos brush shoulders with others in business suits. Some seek a return to the traditions of old. Others embrace the ultra-modern. Many follow Western ways outside their homes, yet sit on the floor and eat and dress in a kimono behind closed doors.

**The Japanese rarely plunge in to business dealings immediately.** They will carefully evaluate you as a individual for some time before getting to the business at hand. Only when you are respected as an individual does commerce commence. Assets like money and power take a temporary back seat to their process of getting to know you.

Invariably, they have a plan. They know what they want and don't want, often leading to conflict during negotiations.

What the Japanese do is colored by intense nationalism. The government and other Japanese institutions of all kinds usually work as a team. Through various associations and organizations built into their system, they are often able to decide which companies will penetrate given markets with certain products in such situations. Operating by unwritten law, other Japanese companies will not attempt to match their efforts, eliminating potentially destructive competition.

Japanese banks assist Japanese companies in many sophisticated ways. In this area, they establish cooperation that small or medium size U.S. companies do not receive in establishing credit lines around the world.

Japanese companies design products exclusively for export,

catering to specialized foreign needs. They are willing to adapt the product for a particular market, including design, color or power requirements. They do this continually. American manufacturers rarely, if ever, do this. Japan subsidizes companies manufacturing products in areas of commerce Japan seeks to expand in. They make no secret of this. Such subsidies take many forms. In some cases, one company will create a specialized product, and another will do the exporting.

Today, Japan is concentrating on electronics, computers, robotics and genetic medicine, all areas guaranteed in the future to be competitive with the United States. Japanese companies need not concern themselves with profits in a manner comparable to publicly-held U.S. companies. This allows them a longer view. Stockholders do not make waves in Japan. Japanese companies therefore can put more money into R&D and are free to show less earnings.

Of course, they have had the enviable luxury of rebuilding and penetrating world markets with their products behind the military shield erected for their benefit by the U.S. We pay for their defense, and have done so for 38 long and expensive years. Nice work if you can get it. This is a key element in their ability to successfully compete with us.

**Japanese financial institutions, together with the Japanese government, extend long-term credits to Japanese companies to enable them to compete with us around the world.** American companies have lost enormous markets to Japan because of such favorable credit terms.

**Japanese companies do not have to worry about losing key personnel,** many of them spend an entire working lifetime with single companies. Such top-executive continuity gives them an immeasurable advantage. When someone does not perform appropriately, the Japanese do not fire or disgrace them. They work around them.

They use their people far more effectively than do most American companies. Japanese executives often get their hands dirty, maintaining contact with work-

ers, down through and into production lines. Suggestions are invited. Everyone becomes and feels directly involved with the success of the company. Suggestions are implemented, rewards and recognition for first-rate performance are common. Everyone pulls together.

Their pay scale is different from ours. Bonuses supplement base salaries. When profits dip, bonuses are withheld or cut. The burden of a maximum salary base is non-existent

Unfriendly corporate takeovers are frowned upon and do not exist in Japanese businesses. And the Japanese employ the most extensive economic intelligence system known.

**Before making a product or penetrating a market, the Japanese do intensive market research.** They are almost 100-percent prepared to do the job. Companies share information, often even when in competition with one another.

In new market penetration situations, their approach is quiet, slow, and step by step. Even if they lose money in the beginning, they persist, following long range plans.

Commonly, American manufacturers do not see such initial market penetrations by Japan as a threat. Initially, the Japanese product may not be up to American standards. But slowly the Japanese correct the product, ultimately dominating that particular product market place. It is now imperative for American manufacturers to react immediately and compete promptly when such competition presents itself.

Any Japanese-American business relationship is strictly temporary. Once the American business connection is no longer needed, the relationship is quietly terminated. The Japanese always seek to put any such relationship under their complete control . . . in its entirety.

If they find themselves on the short end of a business deal, the Japanese will take whatever time is necessary, even years, to correct that imbalance. All subsequent negotiations are geared to reaching that goal.

**Japa Versus the United States (C tinued)**

**Their patience** is enormous, guaranteeing them still another advantage. Americans invariably seek quick results, a virtual impossibility in negotiating with the Japanese. We must learn to endure boredom, frustration, and endless go-rounds. We must out-sit them.

They seek control of patents worldwide. Our technology is continually under their scrutiny. Anything we make that is first-rate will ultimately be grafted onto Japanese products, and will be sold right back to us and our customers.

Now let's look at the United States. Our workers are as strong first as theirs. Our abilities are as good as theirs. We can and should copy their meth-

ods as they copy ours, establishing relationships within American companies that will yield comparable results. Japan, resource-poor, effectively uses its wits to out-compete us. Because we are rich and successful, we have taken too much for granted. And we have lost out because of this attitude. We can use our massive industrial base to correct existing imbalances. Once we realize the true nature of the struggle we are engaged in with the Japanese, we should be able to effectively compete. We possess the resources. What we require now is the same kind of cooperation and mutual support within U.S. companies and between American financial institutions and our government.

We are committed free-trad-

ers. But there is a huge difference between free trade and fair trade. We have largely traded both freely and fairly in competition with the Japanese. Unfortunately, the Japanese have not competed fairly. Therefore, they have been able to seize many rich markets, especially in Asia, that once were ours. We must regroup and again battle for such markets. Our overall economic strength is our best asset here.



**MAX HUGEL**

## Trade Barriers, Japanese Style

American business executives reserve some of their most persistent complaints for Japan, which imposes a mountain of barriers on U.S. service firms and products while selling its own goods and services easily in this country.

Red tape, tough inspections, stalling and special taxes, including many that land more heavily on imported luxury products, make American business leaders and officials in Tokyo shake their heads in frustration.

Among examples from U.S. government and business sources:

**Sporting goods.** The American inventor of aluminum baseball bats was forced by regulators to stop selling in Japan on the ground that his bats had the wrong kind of aluminum. A Japanese baseball league bans the use of all foreign-made aluminum bats.

The Japanese Lawn Tennis Association lifted its ban against use of foreign-made tennis balls, but foreign manufacturers must apply one year in advance of matches. Volleyball, soccer and handball leagues permit use of Japanese-made inflated balls only.

**Tobacco.** Japan imports U.S. tobacco leaves to manufacture its own cigarettes, then discourages sale of American cigarettes.

Imports of cigarettes and other tobacco products are tightly controlled by the Japan Tobacco and Salt Public Corporation, an agency of the Ministry of Finance. The company sells American cigarettes to a limited number of retailers at

50 cents per pack more than is charged for Japanese cigarettes. Profits from this markup go to the Japanese treasury.

Currently, about 99 percent of the 300 billion cigarettes sold annually in Japan are produced in that country.

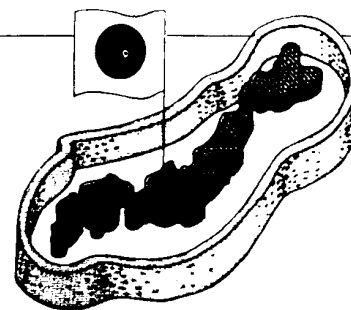
**Agriculture.** Quotas limit the amount that can be imported of leather goods and of such farm products as beef, oranges, fruit juices, milk and cheeses, despite the fact that Japan has signed treaties agreeing to bar these specific types of restrictions.

**Cars.** Autos exported to Japan require six volumes of documents on standards and testing for each model, adding as much as \$500 to the retail price.

Auto inspectors are so strict that defects are found 80 percent of the time, and long waits are required before retesting is completed. U.S. firms also have trouble finding Japanese distributors.

**Health care.** Pharmaceuticals and medical equipment are especially hard to sell in Japan, U.S. officials say.

A manufacturer seeking to sell a product there turns it over to the government for a safety inspection. Product testing takes months—even years—and, in the meantime, Japanese producers are given samples of the item by the government and thus have time to produce their own competing product before the foreign version is allowed on the market.



**Alcohol.** High-priced whiskies, brandies and other alcoholic beverages are taxed at a steeper rate than low-priced liquors, thus discriminating against the usually more expensive imports.

**Paint.** The Tokyo metropolitan government recently rejected a rust-retarding paint made by a small British company because the firm's agent in Japan did not have a university-trained engineer or architect on the staff, as required by Japanese law.

**Services.** Foreign securities firms are not permitted seats on the Tokyo Stock Exchange and receive smaller commissions from member firms than do nonmember Japanese brokers.

The Japanese Ministry of Finance licenses only an average of one new foreign life-insurance firm each year, in spite of a considerable backlog of applications from non-Japanese insurers.

Despite a more liberal law passed in December of 1980, foreign investment still is restricted in certain fields, such as mining, petroleum, leather and leather products, agriculture, forestry and fisheries.

In our dealings with them, whether political or commercial, our people must have the skills, including language, to understand the game and play it successfully.

The Japanese have a word for certain types of negotiations. They call it "*harakimaru*" which means they "set their stomach." This means they have in mind a bottom line below which they will not go. We must set our minds to meet and beat them in such situations. We should not give up until we attain our goals. Through such a tedious process, we will gain their respect. We must build up a core of people who can beat them at their own game.

**Japan remains vital to America's overall strategic interests.** Whatever we do commercially must not erode or destroy the essential rapport between these two countries. Japan should be spending much more money of its own for its own defense. Japan has the money and we should insist that they use it. On this point, there should be no U.S. compromise.

A similar stance should be taken regarding fair American access to Japanese markets, with the goal of correcting much of the existing imbalance of trade. On this we also should be unyielding.

It is imperative that we succeed in attaining these goals. The alternative is a dangerously growing American frustration

with Japan, as more average Americans view this essentially as a threat to their jobs and future. This will ultimately only lead to punitive American legislation, erecting trade barriers and embracing a negative protectionism. This must be avoided at all costs. We should rely on those great strengths which can be brought to bear on the U.S.-Japan trade relationship.

1) We remain the most powerful nation in the world.

2) We are research rich.

3) We possess the largest, most multi-faceted industrial complex.

4) We have the largest, most effective, important financial community.

5) Our currency is the most desirable and accepted currency in the world.

6) We have the most effective high-tech research and development.

7) We are the greatest agricultural nation.

8) We are the most powerful military nation.

9) We have the most impressive business organizational structure and our labor force is still the best overall.

**America must create new and cooperative relationships between labor and management in this country, matching and creating such admirable relationships in Japan.**

We have a serious education problem. Ninety-nine percent of the Japanese people are literate and dedicated to schooling. It is

a family affair to properly educate a child. There is a fierce, intensive desire for such excellence.

Educational systems in our country are in disarray. Our school system has seriously deteriorated. Many American high school graduates are functional illiterates. Excellence and advancement on the basis of merit have often become secondary American considerations. The national debate raging today on this subject is both vital and long overdue. I am confident that from it will emerge an exciting new series of initiatives. These fresh beginnings will and must be effective, or the next generation of Japanese will be far better prepared to deal with the future's challenges than will the next generation of Americans.

Despite this litany of shortcomings and failures, I remain an incorrigible optimist. We have confronted similar challenges in the past and have emerged totally victorious. Americans are invariably at their best when the chips are down, as they are now. Among our people there is a growing realization and understanding of these threats. We will respond to them effectively and competitively, avoiding the counterproductive hostility that has occasionally resulted. There is room for both nations to compete and prosper. We must respond in a sophisticated and mature manner. I have no doubt as to the outcome.